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MANAGING THE SOCIAL DIMENSIONS OF CRISES: GOOD PRACTICES IN SOCIAL POLICY

Attached for the September 27, 1999 meeting of the Development Committee is a paper on Managing the Social Dimensions of Crises: Good Practices in Social Policy prepared by World Bank staff as background to item 2.A of the Provisional Agenda. Ministers may wish to comment on this topic in their prepared statements.

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MANAGING THE SOCIAL DIMENSIONS OF CRISES: GOOD PRACTICES IN SOCIAL POLICY

SEPTEMBER 14, 1999

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ACRONYMS

ADB	Asian Development Bank
ASEM	Asia Europe Meeting
CAS	Country Assistance Strategy
CDF	Comprehensive Development Framework
DEC	Development Economics Department
EDI	Economic Development Institute
EFA	Education For All
HIPC	Heavily Indebted Poor Countries Initiative
HIV/AIDS	Human Immunodeficiency Virus/Acquired Immune Deficiency Syndrome
ICR	Implementation Completion Report
IMF	International Monetary Fund
KDP	Kecamatan Development Project
NGO	Nongovernmental Organization
OECD	Organization for Economic Cooperation and Development
OED	Operations Evaluation Department
PREM	Poverty Reduction and Economic Management Network
SIMA	Statistical Information Management Analysis
SINTyS	Social and Fiscal National Identification System
SMERU	Social Monitoring and Early Response Unit
UI	Unemployment Insurance
UNECSCO	United Nations Education, Scientific, and Cultural Organization
UNICEF	United Nations Children's Fund
UN	United Nations
WBI	World Bank Institute

EXECUTIVE SUMMARY

1. The World Bank prepared a note on Principles and Good Practices in Social Policy for the Spring 1999 meeting of the Development Committee. That note distilled a set of principles in four areas from agreed United Nations declarations, drawing particularly on the declaration from the 1995 World Summit for Social Development:

- achieving universal access to basic social services;
- enabling all men and women to attain secure and sustainable livelihoods and decent working conditions;
- promoting systems of social protection; and
- fostering social integration.

2. The Development Committee requested that World Bank follow-up focus on good practices related to social principles and that the Bank report to the Fall 1999 Fund-Bank Annual Meetings. The primary emphasis was to be on developing the basis for practical advice about social policy, especially in the context of preventing and managing the social dimensions of economic crises. This note reports on the efforts undertaken in response to that request and on the plans for continued identification and sharing of good practices in social policy.

3. The core of the note is on the social dimensions of economic crises, and what is known about good-practice responses. Prevention of crises and their impacts is the strongly preferred approach. And, at the heart of prevention, lie good-practice social policies that promote sustainable development and resilience in the face of economic shocks. Within the scope of the present work on good practices, three elements are key: enhancing knowledge and understanding of good practices in addressing the social dimensions of crisis; organizing knowledge so that it is accessible and useful; and bringing the knowledge into operations where the Bank has an important role in helping member countries address social issues.

4. Against this background, the note provides initial references to project lessons and experience as examples of short-term crisis-management responses, as well as longer-term approaches to preventing crises. As outlined in the note, the short-term effort must focus on the design of a wide range of policy responses to minimize negative impacts on the poor, giving priority to preventing irreversible losses in human and social conditions. The response must cover the full range of areas of public action—macroeconomic policies, safety nets, education, health, and labor market policies. It must also address two crucial cross-cutting areas—information and institutions.

5. The note also highlights two issues that need to be addressed in managing the transition back to longer-term development, once the crisis has passed. First, the most effective way to minimize the costs of shocks is to develop in good times the policies and institutions that confer greater resilience on a society, including measures that *automatically* help offset potential losses when shocks occur. Second, after the crisis has passed, it is useful to take action on the reforms and program changes that the problems exposed in the crisis have shown to be necessary.

6. As outlined in the note, future work on good practices will focus on the following:

- ongoing discussions with the IMF on linking macroeconomic and social policies;

- dialogue with governments, UN agencies, the private sector, and NGOs on their own experiences and programs that can contribute to the compilation of good practices;

- ongoing expansion of websites that will link specific sources of information and promote the sharing of good practices, and enhancement of work of and with the World Bank Institute, Global Development Network, and other forums that can provide information and resources for governments;

- continued work on how good practices can contribute to World Bank operations and their links with the Comprehensive Development Framework, Poverty Action Plans, and Country Assistance Strategies; and

- new work on how good practices can provide guidance for transition economies and post-crisis transition programs, and for enhancing the gender sensitivity of crisis management programs.

Managing the Social Dimensions of Crises: Good Practices in Social Policy

I. Introduction

1. For the Spring 1999 Meetings of the Development Committee, the World Bank prepared a note on Principles and Good Practices in Social Policy. [1] That note distilled a set of principles in four areas from agreed United Nations declarations, drawing especially from the declaration of the 1995 World Summit for Social Development: [2]

- achieving universal access to basic social services;
- enabling all men and women to attain secure and sustainable livelihoods and decent working conditions;
- promoting systems of social protection; and
- fostering social integration.

2. The Development Committee requested that follow-up work proceed along two tracks. The UN would review and refine the principles, in conjunction with preparation for the five-year review of the World Summit for Social Development in June 2000. The World Bank would review and document emerging good practices in relation to financial crises in particular, and more broadly in relation to policies and institutions that support human and social development as the main thrust to long-run sustainable poverty reduction.

3. The Development Committee requested that the World Bank actively follow up on the second track and report back at the Fall 1999 Fund-Bank Annual Meetings. The primary focus of the Bank's work was to be on developing the basis for practical advice for social policy, especially in the context of preventing and managing the social dimensions of economic crises.[3] This note reports on the efforts undertaken in response to that request and on the plans for continued efforts to identify and share good practices in social policy.[4]

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1 *Principles and Good Practices in Social Policy,* World Bank, April 1999.

2 *The Copenhagen Declaration and Program of Action*, World Summit for Social Development, May 1995.

3 Follow-up was "to help countries mobilize the necessary domestic and external resources to implement these principles and to share best practice on the effective use of such resources. Ministers emphasized the importance of the Bank concentrating on strengthening its support for member countries in translating broad principles into practical country-specific results based on the Bank's extensive operational role… They emphasized the importance and urgency of work by the Bank and the Fund to help countries be better prepared for crisis situations, and to ensure that when crisis strikes the most vulnerable groups are protected and the process for longer term development is sustained; ministers asked the World Bank to report back to the Committee at the Annual Meetings on associated policies and practices that could support national and international implementation of these objectives." *Development Committee communique,* September 1999.

4 It is also noted here that the initiative on good practices is complementary to the Bank's existing work through the Comprehensive Development Framework, the new HIPC Initiative, Country Assistance Strategies, and the approach outlined in the paper *Building Poverty Reduction Strategies in Developing Countries: A Proposed Approach*. For example, the paper on poverty reduction strategies points to identifying public actions around specific outcome goals, and the work on good practices in social policy can help identify and inform which public actions can have an impact on certain dimensions of poverty in a crisis. See *A Proposal for a Comprehensive Development Framework,* James D. Wolfensohn, 1998 Bank-Fund Annual Meetings Speech; and *Towards a New Paradigm for Development: Strategies, Policies and Processes*, Joseph E. Stiglitz, 1998 Prebisch Lecture, January 1999.

II. WORK ON GOOD PRACTICES

4. This note describes some of the continuing efforts by the World Bank and other organizations to assemble good practices and lessons learned, especially in relation to economic crises.[5] The approach to good practices is drawn particularly from the lessons of the recent crises in East Asia and Latin America. It points to a body of knowledge that already exists, and gives a few illustrative examples of what is available. A short paper cannot convey the richness, depth, and complexity of knowledge on these issues, nor the abundance of available information: it can only provide an introduction to a multifaceted program that links good practices with policy and operational decisions. The three elements of this program are (a) enhancing knowledge about and understanding of good practices in addressing the social dimensions of crisis; (b) organizing the knowledge so that it is accessible and useful; and (c) bringing the knowledge into operations in which the Bank, in conjunction with client countries, has a central role in addressing social issues. (Box 1 highlights some of the Bank's knowledge management work related to good practice.)

5. The core of this note is devoted to the dimensions of economic and social crises, and what is known about good practice in responding to such crises. It contributes to placing the social agenda at a more central place in the work of the Bank and of governments. However, prevention of crises and their impacts is the best approach. At the heart of prevention lie "good practice" social policies that promote sustainable development and greater resilience to economic shocks. Social policies do not stand in isolation—they are inextricably linked with economic policies. Of course, good social policies cannot prevent economic shocks; however, neither sound macroeconomic conditions nor overall economic growth can be sustainable in the absence of sound social conditions. Thus close cooperation between the Bank and IMF is necessary in the development and implementation of good practices.[6]

6. This note briefly outlines some of the current thinking on crisis response and crisis prevention, and serves as a reference for further efforts. It directs work toward setting priorities, indicates what is available to policymakers in Bank client countries, and provides some specific examples from experiences in crisis countries. Of course, while both general guidelines and good practice examples are of great value, they cannot substitute for country-specific assessment, design, and monitoring of the effects of policy choices. The best way to manage the social dimensions of any crisis depends crucially on initial structures and institutional conditions, the structures of inequalities within a country, the nature and consequences of the particular

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5 The outline of information on good practices provided in this paper is part of the work undertaken to fill out the checklist of questions provided in the discussion paper, *Managing Social Dimensions of Economic Crisis: Good Practices for Policies and Institutions*. This paper was discussed informally with Executive Directors in June 1999, and it outlines a work program based on the checklist. That work underpinned this first draft on good practices, noting that the "initial paper will not involve a full account of the conceptual underpinnings for the views nor a full manual of examples. It will rather provide some highly selected illustrations of the considerations presented."

6 See related issues in World Bank and IMF staff papers: *Review of Social Issues and Policies in IMF Supported Programs*, IMF, September 1999; *Building Poverty Reduction Strategies in Developing Countries: A Proposed Approach,* World Bank, September 1999; *HIPC Initiative: Strengthening the Link Between Debt Relief and Poverty Reduction*, IMF/World Bank, September 1999.

economic shock (often strongly shaped by external factors), and the existing set of programs. Also, crisis management often requires additional flows of external resources in the short term. A major theme of this paper is that a country can in good times prepare the institutions and programs that will confer greater resilience at the macroeconomic and local levels and allow a more effective response when shocks occur.

7. Examples of good practice in social policy not only help to diagnose the issues facing a country, but also help to illustrate policy options. The value and impact of the diagnosis will be more helpful in the country dialogue if examples of good practice are available—although steps in the direction of good practices are always context-dependent. There is no such thing as a single model of good policy: every country chooses its own ways, depending on its historical background, its culture, and its institutions.

Box 1. Collecting and Disseminating Examples of Good Practice

Collecting examples of good practice is part of the Bank's knowledge management role. Information on the management of social dimensions of crises, as well as associated information on safety nets and social aspects of the East Asian crisis, is publicly available on the Bank's poverty website.[1] In most areas of development expertise, communities of good practice (known in the Bank as "thematic groups") have been organized and have already accomplished significant work in building up knowledge bases, including examples of good practice. An increasing number of these knowledge bases are accessible through the World Bank's external website, and more are being developed. A number of collections have been built up with external partners and are linked to external information sources (Early Childhood Development, Highways, Poverty, Administrative and Civil Service Reform).

The World Bank's websites are increasingly open to external partners, who both share the Bank's knowledge and enrich it with their experience. An essential element of development is shared and joint action of all involved institutions, with each acting according to its own role and mandate. The IMF, the UN and its institutions, other multilateral agencies, governments, the private sector, and NGOs all play a role in documenting and sharing good practices. Working with such colleagues at the level of general information, as well as sharing knowledge at the operational level, is part of the continuing work of this initiative.

The development of knowledge and information on good practices should be directed towards providing resources that are easily available and accessible to countries and to World Bank managers. This means not only electronic information on websites (which are not easily accessible in some countries), but training courses, research programs, and basic resource toolkits for managers and governments. The structure of the materials on good practice should assist decision making on setting priorities and designing programs. For example, as governments and donors seek to protect the income or education levels of people in or near poverty, information on different vulnerable groups can help in assessing public expenditures and the design of safety nets.

[1] See the PovertyNet home page, http://www.worldbank.org/poverty, and http://www.worldbank.org/poverty/crisis, for access to the associated sites.

III. Identifying Good Practice: Managing the Social Consequences of Economic Shocks[7]

8. This section provides a survey of issues in good practices to deal with the consequences of economic crises. For one of these—safety nets—a somewhat more extensive account of the issues is provided as Annex 2.

The Social Impact of Crises

9. Economic crises are the result of sudden, unanticipated shocks—for example, the shock that arises from large capital outflows. Crises lead to a sharp decline in output, and often to substantial increases in prices. They affect communities and households in a number of ways. The most important are likely to be the following:[8]

- Reduced demand for labor, and thus lower employment; also, reduced wages and lower labor incomes in the informal sector. Women are often most affected by these changes.
- Changes in relative prices, which tend to affect poor people disproportionately.
- Fiscal cutbacks, which lead to reduced public services or transfers, or higher taxes.
- Changes in asset prices—from shares traded in the stock market to cattle or other goods used as savings by the poor.
- Changes in the community environment, in terms of both public health or public safety, bringing increased risks of disease, violence, and insecurity.

10. The incidence and severity of income poverty usually rise during a crisis, frequently in combination with pressures on other dimensions of well-being, including nutritional status, education, health, and, of course, security. While these changes may affect people in all strata of life, they can have a particularly devastating impact on those living below or close to the poverty line. And among the poor, women and young children are especially vulnerable. Furthermore, there is evidence to suggest that recessionary periods associated with a crisis have detrimental effects on social indicators than are greater than the gains during equivalent periods of growth.

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[7] This paper is focused on good practice in economic crises. The work on good practices will be expanded to consider transition economies over the next year, in consultation with staff, transition governments and others involved in this work. Two other areas of important work in good practice related to crises are natural disasters and post-conflict setting. Significant work is being done by the Post-Conflict Unit in strengthening the Bank's capacity to respond to the needs of war-torn societies. A new research project by DEC will provide new insights into the economics of violence and conflict. In addition, the Bank now has a Disaster Management Facility team and website, http://www.worldbank.org/html/fpd/urban/dis_man/dis_man.htm#good.

[8] See *Macroeconomic Crises and Poverty: Transmission Mechanisms and Policy Responses*, Giovanna Prennushi, Francisco Ferreira and Martin Ravallion, World Bank working paper, August 1999.

11. Economic crises can have devastating effects on a range of social conditions. Many of the declines have persistent or irreversible effects, costs that last for years after the financial consequences of a crisis have been mitigated.

- Workers who lose their jobs for a year or more during a recession may find it hard to return to formal employment.
- Children who are pulled out of school to work often do not return to school. Some are forced into exploitative forms of child labor, such as child prostitution, with permanently debilitating and even-life threatening consequences.
- Infant malnutrition, which rises during a crisis, leads to long-term loss of intelligence.
- Delayed immunizations lead to heightened vulnerability to disease.
- Breakdowns in family and social structures can lead to permanent declines in social cohesion and rises in family or communal violence.

Good Practices in Policy and Institutional Responses

12. When a crisis strikes, the country response must include both short- and long-term elements. The short-term effort must be to design a wide range of policy responses to minimize negative impacts on the poor, giving priority to preventing irreversible losses in human and social conditions. The response must cover the full range of areas of public action—macroeconomic policies, safety nets, education, health, and labor market policies. It must also address two crucial cross-cutting areas—information and institutions.

13. After a crisis passes, it is necessary to manage the transition to longer-term development. There are two longer-run issues. First, the most effective way to minimize the costs of shocks is to develop in good times policies and institutions that confer greater resilience on a society, including measures that *automatically* help offset potential losses when shocks occur. This issue is covered under the policy areas below. Second, after a crisis passes, it is possible to identify key reforms and program changes that the problems exposed in the crisis have shown to be necessary, and shifts in perceptions of priorities and of the roles of different institutions have made feasible. (This is briefly explained in Annex 1.)

14. ***Macroeconomic Policies.*** Prudent macroeconomic policies, especially with respect to monetary and fiscal policy, sound financial systems, and careful management of external capital flows, are crucial elements of long-term resilience to potential economic shocks. As the East Asian crisis vividly showed, a prudent fiscal position alone is insufficient to prevent the loss of confidence by the private sector (although it did provide greater room for fiscal maneuver once the crisis hit).

15. Once a shock occurs, a swift macroeconomic response is usually key to short-run management of the crisis and transition to a new growth path. Good practices in this area stand on two pillars. The first involves taking into account the social impact of contraction in the

design of the short-run macroeconomic response,[9] even if this lengthens the transition period back to the normal growth path. The second pillar is that, when restrictive macroeconomic policies are needed, it is important to adjust the composition of fiscal expenditure and revenue so as to protect the people who are worst off. Assessing linkages between changes in government expenditure/revenue and income distribution is a complex matter, as it requires a fairly detailed understanding of consumer expenditure effects, the reactions of private sector firms, and inter-household transfers. Nevertheless, some guidance can be given:

- Revenue-raising efforts should as much as possible avoid increases in indirect taxes on essential items. It is generally better to impose temporary increases in income and property taxes, which do not affect the poorest people.

- If the horizon of the crisis is relatively short, it generally makes sense to cut capital expenditure by more than recurrent expenditure. Policymakers almost always follow this principle in crises, although care must be taken that maintenance expenditures do not fall along with public investment. Within capital spending, there will be a general case for at least relative protection of programs supporting the expansion of basic social services (e.g., primary schooling, preventive health, and water supplies.)

- Reducing government pay levels in line with general decreases in private wages is usually less damaging than achieving an equivalent reduction in the wage bill by laying off public employees. The challenge for governments is to maintain efficient provision of public services while dealing with the short-term nature of wage compression policies.

- Food supplies should be protected through direct transfers and price subsidization. As a last resort, food can be directly distributed to distressed areas, but the program should avoid endangering producers' incentives.

- Budgetary expenditures that protect basic social sector expenditures should be maintained. Preserving human capital is a complex process involving feeding people, keeping children in school, maintaining basic health levels, providing health services for mothers, and supporting household consumption. A good example is Thailand,[10] where the education budget for the 1999 fiscal year was set at the previous year's real expenditures, and the highly subsidized student loan fund was increased from $220 million to $400 million.

- In principle, there should be fiscal provisions for the expansion of safety nets that provide countercyclical protection and income for the poor—for example, through

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[9] Expansionary fiscal and monetary policies can be a logical antidote to a crisis when feasible. They are inappropriate if crises are caused by unsustainable fiscal deficits and loose monetary policies. This was generally the situation faced by policymakers in crises prior to the 1990s.

[10] See *Thailand Case Study on Public Expenditures and Donor Support for Basic Social Services*, UNICEF, July 1998.

greater fiscal adjustment in other parts of the budget (see below for issues of safety net design) or through special funding mechanisms.

16. The precise dimensions of the appropriate macroeconomic and structural policy reaction to a crisis depend on the magnitude and nature of the shocks, taking into account the evolution of real interest rates and exchange rates, in connection with the price and output changes. The difficulties of designing and sustaining programs of economic reform and structural adjustment—already a complex task—can be increased by the inherent reform weariness that often weakens program impact.[11]

17. ***Safety Nets.***[12] A sound system of safety nets to manage a crisis is likely to involve a number of different components to meet the needs of different groups (see Annex 2)—for example, public works schemes targeted to the poor for those who can work,[13] measures that seek to keep children in school, support to specific commodities, or targeted cash transfers. The optimal design generally depends not only on the structure of needs, but also on existing schemes and on institutional structures. It is particularly hard to introduce new schemes in the midst of a crisis; thus it is important to design a structure of safety nets outside of a crisis that has the institutional capability to be expanded in response to a shock.

18. The problems faced in designing and implementing safety nets in times of crisis are similar to those faced in normal times, only more acute. Targeting becomes a more difficult task when the crisis involves rapid changes in the correlates of poverty. Similarly, coordinating programs between agencies, arranging transfers that have minimal disincentives, and simultaneously ensuring agile implementation and rigorous accounting controls are all challenges that become more acute in crisis. In addition, the shifting nature of the crisis itself makes it particularly important to monitor and evaluate the programs and their impacts on well-being, so that programs can be fine-tuned as the situation merits—in the acute phase of the crisis, to ensure that enough benefits get to the needy; and in the crisis recovery period, to address any shortcomings in institutional fit, incentives, and information.

19. In times of prosperity or growth, well-chosen and well-run safety nets are required to help people deal with individual shocks—illness, death, divorce, or temporary loss of job or earnings—as well as to alleviate more systemic chronic poverty.[14] A country's resilience to economic shocks depends to a large degree on the number and type of safety net programs it has and how appropriate they are for scaling up. For example, an existing labor-intensive public works system could be scaled up during a crisis—a step that would be preferable to inventing a new cash transfer program. Similarly, scaled-up health or

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[11] See *Poland Enterprise and Financial Sector*, OED Evaluation Memorandum, September 1997; *Mozambique Economic Recovery*, OED Evaluation Memorandum, September 1997; and *Philippines Country Assistance Review*; OED, February 1999.

[12] For an example of good practice guidance, see the web site on Safety Nets, available through PovertyNet, http://www.worldbank.org/poverty.

[13] For example, TRABAJAR III in Argentina (see the Project Appraisal Document for the Third Social Protection Project, June 1998) supports a social safety net program that finances small infrastructure projects, provides employment for poor workers, and improves the living standards of poor communities.

[14] For example, see *Peru Social Development and Compensation Fund*, ICR Review, Evaluation Summary, OED, August 1998.

education programs reach the poor better than new programs. Thus, where good safety net systems are in place, the likelihood is greater that they will be successful in mitigating the social effects of crises. (Box 2 discusses some of the central issues in the design of safety nets.)

Box 2. The Design of Safety Nets

Whom to Protect? Policymakers must decide whether (or to what extent) the safety net is meant to help the poorest, or those who are most hurt by the crisis. These two groups may be quite different. As poverty reduction is, after all, the fundamental objective of development, safety nets should be particularly concerned with protecting the poor. Moreover, the consequences of declines in income for the poor may be the most drastic and may result in permanent damage to individuals' well-being (e.g., malnutrition) or their ability to earn income in the future (e.g., through pulling children out of school prematurely, or through selling the assets that small businesses or farming rely on).

In some situations, the groups most vulnerable to irreversible loss may not be the poorest groups. The design of safety nets needs to assess which groups may need targeting in such cases. Thus designers of the safety net must understand who the poor (and/or most vulnerable) are, how the crisis has affected their well-being, and who may have been made poor by the crisis. Analysis of existing data on poverty and on how the crisis affects households can give a first-cut answer. At least at first, such analyses are often based on deduction as much as on data, so new information should be collected as the crisis unfolds, and the safety net adjusted as required. (Annex 3 discusses targeting more fully.)

Criteria for Evaluating New Safety Net Programs. The fundamental criterion of any safety net program should be the impact on poverty. Often, however, this impact cannot be estimated within the time frame for making decisions. Thus it is useful to have other criteria that we expect to contribute to poverty reduction impact. The following list presents such criteria in the order in which they could be considered. We would argue that the "best" program would satisfy the highest number of criteria.

- Does the proposed program address a problem caused or exacerbated by the crisis?
- Is the program cost-effective? Is the net benefit or impact of the program large after netting out administrative costs, errors in targeting (of both exclusion and inclusion), costs to the participants (in particular, opportunity costs like foregone wages, for example), any behavioral changes induced, and so on?
- Can the program be scaled up quickly and still maintain reasonable quality?
- Will the program prevent persistent or irreversible effects? For example, will it ensure that young children are nourished adequately, so that their future intelligence and health develop fully? Will it ensure that children remain in school so that their future earnings capacity is not reduced? Will it ensure that small farmers and entrepreneurs do not have to sell the assets (traction animals, tools, land) upon which their livelihoods depend?
- Will the program improve the balance of social protection among different target groups (young children, the elderly, the unemployed, the working poor, etc.)?
- Is the political economy of the program favorable? Will there be sufficient political support for the program to sustain its budget? Could public information or other campaigns help contribute to the attractiveness of the program?

20. For the long term, two important financing measures can help to provide stronger foundations and greater capacity for absorbing shocks. First, a system of intergovernmental

transfers that strikes an appropriate balance between addressing regional disparities in poverty on the one hand, and the need for local initiative in programming on the other, can have a critical impact on the poverty alleviation impact of local programs both in normal times and in crisis. Second, it helps to set up countercyclical funding mechanisms for safety net programs (although severe crises are likely to overwhelm the funding).

21. ***Education.*** The first priority is to protect the quality of basic education, and access to it. By and large, East Asian governments responded by maintaining existing expenditure levels for basic education for the first 12 months of the crisis. Recent data suggest that spending for basic education remains high priority for these governments.

22. The second priority is to keep children in school. Evidence from both East Asia and Latin America shows that short-term reduction in the funds available for basic education risks long-term irreversible reduction in human capital. Good practice is found in Thailand and Indonesia, with assistance targeted to the poorest.

- In Indonesia's "Stay in School" campaign, for example, 2.6 million of the poorest junior secondary school students (about 17 percent) receive a scholarship, in the form of vouchers, to cover school costs such as notebooks, uniforms, transportation costs, and school fees. In addition, 82,000 primary and junior secondary schools benefit from block grants. A nationwide TV, radio, and print media campaign was launched to inform that parents and communities about the program and to enhance transparency in the use of funds and selection of recipients.

- In Thailand, public schools allow students to stay in school without paying fees (a form of indirect scholarship).[15] Data from the Ministry of Education suggest that the proportion of primary students not paying fees, but continuing in school, increased from 10 percent to 40 percent.

23. The long-term goal in education is to ensure that everyone completes a basic education of adequate quality, acquires foundational skill—literacy, numeracy, reasoning, and social skills such as teamwork—and has further opportunities to learn advanced skills throughout life, in a range of post-basic education settings.[16] Specific international targets have been agreed for universal primary education, adult literacy, and gender parity in basic education on the basis of the Education for All (EFA) initiative and the OECD's Development Assistance Committee

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[15] Further examples include the Sumatra Basic Education Project (see Project Appraisal Document, March 1999) and the Sulawesi and Eastern Islands Basic Education Project (see Project Appraisal Document, March 1999) in Indonesia. Both were designed to maintain primary and secondary school enrollment rates, protect quality of education, and support recovery for a medium-term education strategy.

[16] See *Education Sector Strategy Paper*, World Bank, 1999. For specific areas, see websites on Early Childhood Development, Access and Equity in Education (girls education), and Effective Schools and Teachers, available through http://wbln0018.worldbank.org/HDNet/HD.nsf/SectorPages/Education?Opendocument, or contact the Education Advisory Service. For specific lessons see *Chile Primary Education Improvement*, ICR Review, Evaluation Summary, OED, January 1999; *Malaysia Third Primary and Second Education*, Evaluation Memorandum, OED, October 1997; *Burkina Faso Primary Education Development Project*, Evaluation Memorandum, OED, December 1995.

(International Development) goals.[17] The Bank is committed to working toward those targets and has developed a set of special programs in response.

24. ***Health.*** Crises are generally accompanied by increased health risks and decreased affordability of health care. A health sector response should be designed to mitigate short-term impacts and strengthen the long-term resilience of the health sector. In East Asia, for example, the Bank has sought to support country-specific responses by restructuring existing operations as needed to ensure sustainability, building local capacity to strengthen institutions and involve civil society, and implementing new operations to compensate for resource shortfalls. Wherever possible, these responses have been designed to strengthen and promote the sustainability of existing country institutions, such as ongoing household survey systems.

- In Thailand, the ADB is supporting the reallocation of public funds to support health programs for the poor, and to maintain coverage for maternal, child health, and HIV/AIDS activities.

- The World Bank is funding community-based AIDS programs and low-income health care initiatives. As part of the Social Investment Project, the World Bank has provided $30 million to ensure that the programs have adequate funding during the crisis. In Indonesia, the Bank restructured an Early Childhood Development project, planned before the crisis, to include $11 million in nutritional supplements to children between the ages of 6 to 24 months. As part of the Policy Reform Support Loan, the Bank provides funds to support the purchase of essential drugs and increased monitoring of health indicators. In the Philippines, in partnership with donors such as UNICEF and the ADB, the Bank is involved in a health sector review that covers issues of health outcomes, performance of health care systems, and health investments.[18]

25. Good health, nutrition, and reproductive policies, and effective health services, are critical links in the building blocks that allow countries to break out of the circle of poverty, high fertility, poor health, and low economic growth.[19] Work in the health sector is based on three pillars: improving the health, nutrition, and population outcomes of the poor; enhancing the performance of health care systems; and securing sustainable health care financing.

26. The challenges in health remain complex, including both infectious diseases and the increasingly visible noncommunicable diseases.[20] Health systems need to allocate resources to interventions that are of higher quality and greater efficacy, and that are clearly targeted. Priorities and programs should focus on areas in which the return on health gains can be shown

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[17] See *Education Now*, Oxfam, Oxford, U.K., 1999; and *Education for All,* EFA 2000, EFA Secretariat, UNESCO-Paris. EFA information is available at the following website: http://www.unesco.org/education/efa/.

[18] See *Health and Nutrition in East Asia*, available through the Social Crisis in East Asia website, http://www.worldbank.org/poverty/eacrisis/.

[19] See *Health, Nutrition, and Population Sector Strategy Paper*, World Bank, 1997.

[20] *The World Health Report 1999*, World Health Organization, 1999.

to be the highest, especially for low-income groups.[21] For the long term, more needs to be learned with regard to providing adequate health services to the poor. In addition, given the long lags between the deteriorating health conditions of the population and the availability of health indicators, some general guidelines on the implementation of basic monitoring information systems are essential.

27. ***Labor Market Policies***. In most developing countries, crises have caused reduced wages, but not a great increase in open unemployment. The labor markets in these countries seem to perform adequately, leaving little need for special labor market policies. But in higher-income developing countries, such as Argentina and South Korea, significant increases in open unemployment have quickly followed economic crises, indicating that labor markets are insufficiently flexible. In such cases, the country needs labor market policies, institutions, and practices that can reduce the occurrence of employment-related risk associated with the volatility of the labor market, mitigate these risks, and help workers and their families cope with hardship once it has occurred.

- *Risk reduction*. First, the regulation of the labor market should reduce barriers to employment (e.g., mobility obstacles), and should encourage adjustment to reduced labor demand through broadly based wage adjustments rather than through open unemployment. Second, the capacity for launching temporary public works schemes and, where feasible, temporary job subsidies in hard-hit areas should be in place before a crisis strikes. Third, in a recession, retrenchment in the public sector should be avoided as far as possible; it is preferable to reduce working hours. Fourth, monitoring and inspection arrangements should be in place to prevent a serious increase in prostitution and other harmful forms of child labor among young people.

- *Risk mitigation.* Risk mitigation strategies should be in place ex ante to reduce the hardship associated with a labor market shock such as job loss. Unemployment insurance (UI) is the obvious instrument in this regard, but it may not be appropriate for all developing countries, especially those with large informal sectors. Other types of unemployment support plans may fit better with a particular country's capacities and needs. One example that merits attention is savings-based plans, such as Brazil has implemented.

28. A sound labor framework involves more than just government policies and programs. Tripartite arrangements of employers, trade unions, and government can set standards for collective bargaining agreements that promote labor market flexibility. Agreements that permit flexibility in working hours, overtime rates, and bonuses are preferable to those that impose rigid hours and wages. In addition, both national and agreement-specific minimum wage rates should make adjustment of rates a matter of deliberate decision and not one of simple indexation.

29. ***Information***. One key element of effective action is a crisis response system built on timely and diverse types of information. Without reliable and up-to-date information,

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[21] See *China Integrated Regional Health Development*, ICR Review, Evaluation Summary, OED, August 1998; *Bangladesh Fourth Population and Health*, Implementation Completion Report, February 1999; and *Uganda First Health Project*, Evaluation Memorandum, OED, May 1997.

governments and donors cannot design targeted and effective responses. It is particularly important that social impact assessments and economic policy decisions be linked to information on crisis impacts on low-income households and communities. As governments and donors move quickly to design and implement new programs, or to expand existing ones, they must have the capacity to monitor impacts and evaluate progress. Indonesia's SMERU (Social Monitoring and Early Response Unit) is an example of a crisis response information system (see Box 3). As another example, Malaysia, Thailand, and the Philippines all established coordinating agencies to link rapid research programs with government planners.

Box 3. Social Monitoring and Early Response Unit (SMERU), Indonesia

The Social Monitoring and Early Response Unit, or SMERU, is a collaborative multidonor effort led by the World Bank with contributions and technical support from AusAID, the European Unit ASEM Fund, and the U.S. Agency for International Development. SMERU's objective is to provide rapid real-time qualitative information to donors and the Government of Indonesia on crisis-related conditions and on the operations of social safety net programs in urban and rural areas.

SMERU is designed to

- Create a network capable of channeling and filtering information useful to policymakers, especially the local knowledge generated by the activities of local and international NGOs in the course of their regular field operations. This network creates a capacity for community monitoring by facilitating a two-way flow of information with local groups about donor and government safety net activities.
- Enable community monitoring of crisis response programs, disseminating information about the design and intended operation of safety net programs, and establishing specific mechanisms for query and feedback. Thus it supports NGOs and local groups in monitoring the implementation of a wide variety of social safety net programs.
- Mount a capacity for rapid field assessment that will produce quick-turnaround reporting on "danger signals" generated either through the unit's network or through field reports and field research on emerging issues.
- Mobilize directed social science to investigate specific thematic issues about the social crisis, such as household coping mechanisms, migration and support networks, or gender differences. SMERU draws on this work to provide quick-turnaround reports using a range of qualitative techniques (rapid appraisals, participatory rural appraisals, focus groups, etc.).
- Monitor provincial deregulation in the trade sector through field-based investigation of remaining or newly created provincial, district, and local restrictions on trade and through a dialogue with government officials and private sector economic agents on the elimination of these restrictions.

Source: SMERU overview on the Social Crisis in East Asia website: http://www.worldbank.org/poverty/eacrisis/index.htm.

30. Informational problems are exacerbated as governments cut funds under the budgetary pressures of a crisis. Finding temporary supplemental funding sources quickly is essential. When the Indonesian government drastically reduced funding for the 1999 round of the socioeconomic household survey, the Bank agreed with the GOI to make unallocated funds from

the Safe Motherhood Project available for survey operations. The Bank also supported a special round of a longitudinal survey conducted by RAND.

31. The work of the World Bank and other organizations in poverty reduction and development policy depends on information on specific local and social groups, as well as regional and national aggregates. As in crisis situations, the problem of poor-quality information reduces the quality of design and implementation of programs. Building efficient and well-designed systems for gathering information on a regular basis helps inform decision making and planning. The need for information has led to an expansion of existing tools, such as household surveys, and rapid development of new ones, such as Participatory Poverty Assessments (Zambia), greater participation in CAS processes, and more recently the Live Database (currently focused on Africa). [22]

32. The Statistical Information and Management Analysis (SIMA) tool in DEC already offers mapping, charting, and search functions. It provides an "on the fly" resource to allow immediate access to a range of recent and updated research. In Argentina, the Social and Fiscal National Identification System (SINTyS) Program Project was established to improve the efficiency, effectiveness, and impact of social services and fiscal programs through institutionalized information exchange. The first phase of the project has several components, including better identification of individuals and entities, reducing tax evasion and increasing voluntary compliance, providing legal and technological infrastructure for information exchange, and creating a framework for common services.

33. ***Institutions.*** A growing body of research is providing evidence that sound institutions and good governance are necessary for development.[23] But good governance and sound institutions do more: they also help countries weather adverse shocks.

34. A recent paper studied countries hit by large terms-of-trade shocks during the 1970s, to determine why some countries—such as Korea—recovered well from the adverse effects of large oil price increases, while other countries did not.[24] At first glance, the answer is obvious: Korea reacted rapidly to the crisis with good macroeconomic policies, while others did not. The deeper question is why Korea was able to adopt these sound policies while others were not. The paper concluded that two factors explained the difference. One factor was the extent of social divisions in a country—such as income inequality or irreconcilable political and ethnic friction or conflict. The other was the quality of a country's institutions—its public institutions, its bureaucracy, and its social safety nets—which affected its ability to manage these social conflicts. [25] The East

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[22] *Review of Participatory Approaches in Country Assistance* (draft), World Bank Social Development Unit, August 1999.

[23] For example, the adverse effects of corruption on growth have been documented in *The Effects of Corruption on Growth, Investment, and Government Expenditure,* Paolo Mauro, IMF Working Paper, 1995, and the beneficial effects of institutions in "Why Don't Poor Countries Catch Up? A Cross-National Test of an Institutional Explanation," Stephen Knack, *Economic Inquiry*, July 1997.

[24] *TFPG Controversies, Institutions, and Economic Performance in East Asia,* Dani Rodrik, National Bureau of Economic Research Working Paper Series, 1997.

[25] For good practice, see PREM website on Administrative and Civil Service Reform, http://www.worldbank.org/publicsector/, which provides updated information on key concepts and good

Asia experience contributes an additional factor: the importance of the transparency and accountability of financial institutions and regulatory frameworks.

35. Strengthening institutions during crises can appear an impossible task. Yet there are examples of ways in which crisis response programs can be linked to institutional strengthening and accountability goals (see Box 4).

Box 4. Building Effective and Accountable Local Institutions: Kecamatan Development Program (KDP), Indonesia

The Kecamatan Development Project (KDP) encourages villagers to voice their needs and to take control of local development decisions. Kecamatans (subdistricts) that participate receive block grants from the national treasury, which they allocate among proposals presented by their member villages. Proposals for public goods are eligible for grants, and proposals for economic projects qualify for loans. Any village group may apply for grants. Each village may submit a maximum of two proposals each year; but if there are two, the second proposal must come from a women's group. A kecamatan council of village representatives makes funding decisions. Nobody above the kecamatan has any say in deciding which proposals get funded.

The KDPs main objective is to reduce poverty and to help communities plan and manage their own development activities. The project emphasizes transparency and broad-based community monitoring by actively disseminating information through signboards, posters, radio programs, and free-ranging independent journalists who write stories on the project for regional and national newspapers. Local, private-sector facilitators trained by KDP disseminate information on the project's principles and activities throughout the community by working with informal leaders and traditional institutions, in addition to local governments. By giving communities the time and resources to do their own planning, by working through people’s own institutions, and by channeling resources directly to the communities, KDP helps vulnerable groups and individuals identify their needs, plan, write proposals, and participate in the decision-making process.

Under KDP, three types of investments are made. The first involves increasing and building the capacity of community organizations to plan, demand services, implement and monitor small scale infrastructure program, and manage resources. The second involves investing in procedures and systems, which enable development of more transparent and accountable government and local-level institutions. The third involves developing more options for brokerage, intermediation, and facilitation to support community-level efforts through civil society and private sector. The creation of community-level capacity and more responsive and accountable institutions is expected to lead to an efficient, effective, and sustainable environment for decentralization and local-level governance.

Source: *Fostering Inclusion and Social Cohesion*, Working Paper, Social Development, Ashraf Ghani, Parmesh Shah, et al., August 1999.

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practice on government administrative reinvention and reform. The site includes information on Machinery of Government, Fiscal Issues in Civil Service Reform, Human Resource Management and Sectoral Issues in Administrative Reform. A recent case study is *Good Governance in Africa: A Case Study from Uganda*, Petter Langsethe, Damian Kato, Mohannad Kisubi, and Jeremy Pope, EDI/World Bank, 1997. Country experience is documented in *El Salvador Technical Assistance*, Evaluation Summary, OED, September 1997.

IV. ONGOING WORK ON GOOD PRACTICES

36. This paper has provided a general outline of the Bank's ongoing work on good practices in social policy, noting that it is related to other key Bank initiatives, and has presented short overviews of thematic areas. The continuation of this effort will include collecting further lessons on good practice, engaging with specific operational areas as outlined in the paper, and ensuring that the initiative on good practices continues to be coordinated with other major initiatives in the Bank.

37. The following are among the main elements of the work to be undertaken:

- ongoing discussions with the IMF on linking macroeconomic and social policies;
- dialogue with governments, UN agencies, the private sector, and NGOs on their own experiences and programs that can contribute to the compilation of good practices;
- ongoing expansion of websites that will link specific sources of information and promote the sharing of good practices, and enhancement of work of and with the World Bank Institute, Global Development Network, and other forums that can provide information and resources for governments;
- continued work on how good practices can contribute to World Bank operations and their links with the Comprehensive Development Framework, Poverty Action Plans, and Country Assistance Strategies; and
- new work on how good practices can provide guidance for transition economies and post-crisis transition programs, and for enhancing the gender sensitivity of crisis management programs.

POST-CRISIS TRANSITION

1. The period immediately following the apex of a crisis is also critical to a country's long-term recovery. In this period it is important to focus on key reforms that the crisis has shown to be necessary and that shifts in perceptions of priorities and of the roles of different institutions have made feasible. At the same time, it is important to identify ways to shift resources to longer-term programs, especially those that appear to have the most impact in the new economic and social setting

2. Programs that were put in place in response to a crisis need to be reassessed in light of the post-crisis situation. Targeting aid to poor families, for instance, is likely to be good practice in "normal" times as well as in times of crisis. However, it may be necessary to review and restructure such aid programs, whether they have been in place for a long time or have been designed during the crisis. It is also necessary to design measures to enable poor and vulnerable people to reduce their dependence on short-term programs that were established specifically for the crisis period.

3. During the transition period, prudent macroeconomic policies should be continued and strengthened, and special crisis policies revised or incorporated into longer-term goals. In countries able to pursue countercyclical policies to combat the recessionary effects of the crisis, this means that fiscal deficits will need to fall as a percentage of GDP; normally, this can be done as revenues rise in response to the economic recovery, even as public expenditures rise. Temporary policies such as the introduction of food subsidies should be phased out to avoid permanent distortions. Overstaffing in civil services, while permissible in a crisis, should be addressed once the crisis has passed. It is important to undo the damage that the crisis leaves in its wake, and to begin reforming institutions that proved unsound.

4. Flexibility is needed when approaching financial sector reform, as restructuring should ease credit availability for viable borrowers. Maintaining or improving standards of governance is also very important. There is evidence that the economies that recover more effectively are those that maintain relatively undistorted markets and suffer from the least corruption.

ISSUES IN THE DESIGN OF SAFETY NETS

1. In this annex we first sketch a framework for deciding what to do in specific country circumstances. Then we briefly review experience with different common programs, and the stylized facts about the performance of overall safety nets. A discussion of various targeting methods is provided in Annex 3.

Framework for Weaving Safety Nets

2. In assessing what needs to be done to strengthen a safety net, four lines of analysis must be pursued: Whom should it protect? How do conditions in the country shape the net? What criteria do we use to evaluate proposed changes in the safety net? How do safety nets in times of crisis differ from those in "normal" times? The first and third of these questions are addressed in Box 2 of the main text; the others are addressed below.

3. ***Existing country conditions limit and shape feasible safety net options***. The most obvious factor to be considered is the number and type of safety net programs in existence and how appropriate they are for scaling up. A country with an existing labor-intensive public works system will, for example, start by scaling it up rather than by inventing a new cash transfer program, and vice versa. Similarly, how well the health or education systems reach the poor will determine how well add-on programs piggy-backed on to them could do in reaching the poor in a crisis. Institutional capacity in a more general sense matters as well. Do institutions have the inputs (staff, offices, and systems) to deliver programs? Are government operations accountable and transparent? Are there appropriate mechanisms for interagency coordination? Where the initial conditions are conducive to effective safety net interventions—that is, if staff and systems are in place and good governance conditions prevail—the likelihood of successful safety net interventions in a crisis would be expected to be greater.

4. The level of human development in the country and the extent and depth of poverty inevitably influence the types of safety net interventions that are undertaken. If poverty is extensive and the profile of the poor is not obviously different from the rest of the population, limiting assistance to those who fall below a certain income level is relatively difficult. The country's fiscal effort given the level of national income affects the type and extent of safety net programs that could be introduced to protect the poorest in the society against the adverse effects of crises. (See Box 2 in main text.)

5. ***How do safety nets differ in crisis versus normal times?*** In times of prosperity or growth some people inevitably need safety nets to help deal with individual shocks—illness, death, divorce, or temporary loss of job. In times of crisis, however, the demands on safety nets are qualitatively different in certain key senses. First, by definition during a crisis, many people have suffered misfortune all at once. So whether "insurance" is formal, as in unemployment insurance, or informal, as when families help out a member who has lost his job, the losses are likely to be so widespread that the insurance system is overwhelmed and insurance markets therefore tend to "fail." The formal systems may become bankrupt, and the informal systems may find that there aren't enough prosperous family members to help those who need help. In addition, there is probably not enough money available to public systems to help all of those who

are affected. So rather than use the eligibility criteria of having suffered a shock, the criteria for assistance should focus on absolute need.

6. In other ways, the problems faced in designing and implementing safety nets in times of crisis are similar to those faced in normal times, only more acute. Targeting, for example, is never perfect or easy (see Annex 3), but it becomes a more difficult task when the crisis involves rapid changes in the correlates of poverty. Similarly, coordinating programs between agencies, arranging transfers that have minimal disincentives, and simultaneously ensuring agile implementation and rigorous accounting controls are all perennial challenges, and they are all the more acute in times of crisis. In crisis, the need to do something urgently and on a significant scale may lead to accepting tradeoffs with other desirable goals. This, and the shifting nature of the crisis itself, make it particularly important to monitor and evaluate the programs and the well-being of the population so that the programs can be fine-tuned as the situation merits—in the acute phase of the crisis, to ensure that enough benefits get to the needy; and in the crisis recovery period, to address any shortcomings in institutional fit, incentives, and information.

Stylized Facts about Program Performance

7. Decisions about safety net programs always have to take into account the particular country circumstances and features of the specific program's design. Evidence shows, for example, that administrative costs and targeting outcomes vary more within a genre of programs than do their averages for several types of programs. Nonetheless, there are some generalizations that can guide initial decisions about where to focus energy in designing program proposals. Here we sketch the stylized facts about the major safety net interventions that have been adopted in developing countries.

8. ***Monetary Payments.*** Needs-based cash transfers restricted to those in need would be an ideal form of extending protection to the poor, both in crises and in normal times. Monetary payments are economically efficient because they allow recipients to spend the proceeds as needed. Practical problems hinder the efficacy of any such programs, (although the problems, relative to alternative safety net options, may be overrated): identifying those in need and restricting payments to that group, the risk of creating adverse work incentives (or welfare dependency), and the risk that the availability of cash heightens the possibility of fraudulent behavior. The following lessons about needs-based cash transfers have emerged from experience:

- Such transfers often tend to be highly decentralized, in order to take advantage of local information in identifying the poor. This approach requires a strong redistributive fiscal role on the part of higher levels of government if existing regional disparities are not to worsen.

- Local community-based targeting has been used in a range of circumstances, with the exact mechanisms depending on the existing social and institutional structure. Preliminary evidence from such transition countries as Uzbekistan suggests that this approach can work well in identifying the poor, although further evaluation is necessary. Assessment of need may be made on the basis of income, assets, or some form of proxy tests.

- From a political economy perspective, mobilizing support for needs-based cash transfers can be difficult, and for this reason the programs tend to be underfunded.

Because of real or perceived concerns over the difficulties in running needs-based cash transfers with benefits large enough to provide meaningful safety nets, most countries opt to weave together a series of other programs that each captures a portion of the population that needs assistance, including several of the following options.

9. ***General Food Price Subsidies.*** General subsidies to food prices have traditionally been common, though food price subsidies have been greatly reduced or eliminated in many countries in the last 10 to 15 years as countries have developed more efficient tools.

- Theory tells us that if a subsidy can be applied to a commodity for which consumption declines as income rises (i.e., the commodity has a negative income elasticity), the absolute values of the transfer can go more to the poor than the non-poor. In practice, there are few such goods, and those that do exist often have features that make subsidization difficult—they are largely produced and consumed at home, or they are used for animal feed as well as for human food so that a substantial portion of the subsidy is leaked off into the livestock industry.

- Subsidies to goods for which consumption grows only slowly compared to income (i.e., the goods have a low income elasticity) can result in transfers that provide a larger share of the consumption of the poor than of the non-poor, although the benefits are still larger in absolute terms for the non-poor. Such goods are more numerous, and some of them have production and marketing chains that make it feasible to subsidize them. In the very best of these programs the errors of inclusion are not much worse than in some other safety net programs, though the average performance is not as good. Errors of exclusion are usually very low in urban areas but may be higher in rural areas if the product is produced at home.

- Historically, many general price subsidies have distorted production or trade incentives and have produced inefficiencies in agriculture, trade, or exchange rates policies. Universal subsidies have also tended to account for a relatively high share of budgetary expenditures, and have eventually proved to be fiscally unsustainable. This was the case in Tunisia, for example, where subsidies were scaled back and successfully reoriented to inferior grades of good.

10. ***Schooling or Health-Service-Linked Programs.*** Since the 1980s at least, when UNICEF and others drew attention to the risk of reversal of key social indicators during crises and adjustment, measures to minimize this risk have assumed a more important place. One option is to couple assistance based on specific observable categorical criteria with participation in activities that are considered to be desirable. Examples of such couplings are school age and attendance at school, or pre-school age with participation in basic preventive health activities like immunizations and growth monitoring. In this sense, the programs may have dual objectives related to poverty and human development. The findings from programs to date suggest the following:

- Such programs can make a substantial contribution to efforts to improve, or at least avoid worsening, school enrollment rates. Evaluations of the Bangladesh Food for Education program found that 100 kg. of rice increased the probability of boys' schooling by 17 percent, and by a massive 160 percent for girls. With a scholarship program put into place during the recent crisis in Indonesia, primary enrollment rates have not dropped despite worsening poverty and hardship. In the Mexican Progresa program, clinic attendance increased when transfers were linked to payments.

- Where age and use of services are the sole criteria for eligibility, the programs become something conceptually similar to family allowances. Or additional targeting mechanisms may be used in conjunction with age and use of services. For example, the Brazilian Bolsa Escola and Mexican Progresa programs use proxy means tests, and the Indonesian scholarship program uses geographic and community-based based mechanisms; and for health-care-linked programs, the nutritional status of the child is used to determine benefits.

- Recent experience with respect to several programs with additional targeting criteria suggests that leakage to the non-poor can be acceptably low, even if not all of the poor are covered.

- The attendant obligations do impose costs on the poor, so that the poor will only participate if there is a net gain. Cost-effectiveness calculations must take this into account.

- The incremental administrative costs of programs run at schools and clinics should not be zero: teachers and nurses require separate helpers to administer these distribution programs, or the quality of services may suffer. This has been reported in the case of school meals in India, for example.

11. ***Family Allowances.*** Family allowances are a categorical program frequent in Europe and the former Soviet Union. They pay a benefit for all children under some fixed age limit, sometimes with a maximum number of benefits payable per household. Lessons to date are:

- In many countries children are somewhat poorer than the average for the population, so the benefits may be mildly progressive rather than purely proportional. There are no inherent errors of exclusion; any such errors are due to imperfect outreach and administration.

- There may be a much higher than average incidence of poverty among members of a certain group—say single parents—but the group may represent only a relatively small share of the population and therefore of the poor. Also, a large share of the group will probably not be poor.

- Depending upon the category identified for targeting, the number of individuals or households potentially eligible for assistance may be large. This tends to mean that the benefit will be small in size.

12. ***Assistance to the Unemployed.*** Industrial countries have systems in place that provide income support to people who are laid off. These systems can operate on a social-insurance-type basis–so that individuals (and/or their employers) contribute to funding and benefits are linked to prior earnings—or can be financed out of general revenue. Some developing countries have developed unemployment benefit schemes along social insurance lines—including Brazil, Korea, and much of the former Soviet Union and Eastern Europe. The stylized facts associated with unemployment benefits are:

- In general, few of the unemployed and even fewer of the poor receive unemployment benefits.

- Low coverage of unemployment benefits is partly a problem of design. If benefits are to be linked to past contributions, then informal sector workers are excluded. In Brazil, the unemployment insurance program covers only 4 percent of the poor. Another design feature can be seen in Korea where, until recently, eligibility for benefits required the worker to have previously worked at an enterprise with more than 500 employees. The rules governing eligibility in the former Soviet republics tended to be somewhat more liberal, but benefit take-up has tended to be very low (around one in ten of the openly unemployed), which seems to be attributable to the very low levels of benefit that were paid.

- If assistance to the unemployed were to become an effective part of a poverty reduction strategy during a crisis, it would seem unwise to limit support to those who had been displaced from the formal sector, although directing assistance to all the "truly" unemployed raises practical identification problems.

- An appropriate source of funding for a well-designed scheme could be the budget, rather than payroll-tax type contributions.

13. A key question is how to limit support to the unemployed while not providing disincentives to look for and take up offers of work. Options include work activity tests—to ensure on the one hand that the individual is actively searching for a job, and on the other hand that the individual is not actually working—and fairly austere levels of benefit. Countries with well-developed institutional systems in place have effectively operated such schemes—as in Australia, where unemployment benefits are also means-tested. Such an approach may be feasible in much of Europe and Central Asia, Latin America and parts of East Asia. In many countries, however, workfare may be a better way to target the unemployed via self-selection.

14. ***Employment on Labor-Intensive Public Works.*** There is broad experience with such programs in many countries. The following points summarize the accumulated lessons:

- Such programs can be considered cost-effective only if, in addition to serving as a self-targeting mechanism for distributing cash in the form of wages (or food, in food-for-works programs), the public works provide substantial benefits in themselves. It is possible to target the works performed so that the assets created benefit the poor in the long run. Given the costs for administration, for equipment and materials, for skilled labor, for targeting errors and allowing for forgone earnings, the share of a dollar spent that reaches the target group in net benefit is low—often on the order of 20 to 30 cents.

- It is possible to get good rates of return with labor-intensive methods, though the labor share is likely to be no more than 40-60 percent on a large portfolio of sound projects.

- The higher the share of unskilled labor in total costs, the greater will be contribution to current benefits.

- If the wage is set low (below or equal to the effective market wage for heavy, unskilled labor), only the poor will choose to work on the jobs, and errors of inclusion will tend to be low.

- Evidence does not suggest that work on the programs has added to skills or experience that helps participants get other jobs.

- Labor-intensive public works programs have rarely employed a very large fraction of the poor—e.g., the Maharashtra Employment Guarantee scheme in the 1980s, widely regarded as one of the most successful and relatively large public works scheme, did not cover more than 18 percent of households in the bottom income decile.

- Workfare has several intuitively appealing features—it does not provide disincentives to work; also it enables the positive features of workforce participation to be maintained and thus, possibly, aids social cohesion.

- Workfare programs do not help all groups—they are not suitable instruments to reach the elderly or children; they usually do not reach the working poor, for whom the opportunity costs of participating are higher; and explicit design features need to be incorporated to get substantial rates of participation from women.

- Good workfare programs are complex to run, and many workfare programs do not comply with "good practice" or realize the potential that the genre of programs has. Moreover, it takes at least several months to either start good programs or to scale them up markedly.

Stylized Facts About the Overall Country-Level Effectiveness of Safety Nets

15. The poverty reduction impact of any social safety net depends on the combined effect of its various programs. Even relatively poor countries often have a number of programs in place, and it is not necessary that every program reach all the poor. Nor would we expect, or even hope, that safety net interventions would eliminate poverty in any particular country. An effective poverty reduction strategy depends on a range of factors, not the least being broad-based economic growth. Even so, there are disappointingly few developing countries where the safety net as a whole functions well, although there are many cases where individual programs

are effective within their defined role. Country experience to date shows several common features during crises:

- Social safety net budgets have often tended to shrink in absolute real terms, though spending may grow as share of total government spending. As a result, the amount of spending on poverty-oriented safety net programs is generally insufficient to address the extent or depth of need.

- Given the fact that programs likely to be expanded during crises are not comprehensive, it is important to move forward on a number of fronts. For example, an expansion of workfare may play an important role for some prime-aged individuals, but it needs to be complemented by schemes to reach the working poor. Among the working poor, some have children and can be reached by such programs as child allowances or school-linked programs; and some do not, and are therefore more difficult to reach.

- Many countries (even in Africa) have a plethora of small programs, often without effective mechanisms to coordinate them to ensure that overlaps and gaps are not too big. While such cases have not been sufficiently evaluated, it is hard to imagine that having a multitude of separately administered small programs is efficient.

- The main agency ostensibly concerned with safety net programs at the central level is typically relatively weak in political economy terms. Moreover, many agencies are usually involved, each with different programs. A coordinating committee, chaired by someone with authority to make ministries fall in line, can help overcome this problem.

- The interplay of local capacity (institutional and fiscal), regional disparities, and intergovernmental transfers has a critical impact on the poverty alleviation impact of local programs.

- Evaluation and feedback into program design can significantly improve the poverty impact of safety net initiatives, and are especially important in rapidly changing situations like crises.

TARGETING METHODS FOR SAFETY NETS

1. At first blush, it would seem that restricting safety net transfers to poor people—with poverty measured by consumption or income—would have the largest poverty impact. However, tradeoffs are involved. First, targeting is a tool whose benefit is the increased efficiency of expenditure. Its use, however, has costs, which must be balanced against the benefits in deciding how finely to target and what instrument to use. The most obvious are the administrative costs associated with monitoring household incomes in countries where the informal sector is predominant. Targeting criteria may also alter incentives and change household behaviors in ways that may entail costs of their own. For example, if program benefit levels are based on income, then there will be a disincentive to work. And targeting programs to only a small group of beneficiaries may limit their political support and thus their budget. A second targeting tradeoff is that no practical mechanism is perfect. Some non-needy people will always get benefits (called errors of inclusion), and some needy people will be left out (errors of exclusion). In general, actions to lower one kind of error raise the other. Because fine income-based targeting faces these tradeoffs, the idea of using other more observable characteristics as targeting tools is appealing. This annex reviews some of the major options. Targeting in a crisis is likely to be even harder than targeting is normally because the correlates of poverty can change quite rapidly.

2. ***Categorical targeting*** approaches are based on individual or family characteristics that are correlated with poverty but which are also readily observable—age and disability are frequent categories. In general, categorical targeting is the least precise, though quite simple and usually politically acceptable so long as the categories are those that might pertain to anyone (age, disability). Targeting by ethnic group could in many countries be relatively precise, but it is not usually seen as a politically feasible option.

3. ***Geographic targeting*** is based on the fact that poor people are often concentrated in some areas.

- Geographic targeting is, by definition, somewhat imperfect—there are always some pockets of poverty in wealthier areas, and some well-off households in generally poor areas.

- In general, the smaller the geographic unit used, the more accurate the targeting is. The availability of data for small geographic units and the practicalities of running programs will, however, limit how small the unit used can be.

- There may be tradeoffs between economic efficiency and political viability. Consider for example a case where a country is divided into provinces and these into districts. The most accurate targeting would involve choosing the poorest, say 100, districts. In many countries, however, such a selection would exclude whole provinces, and their representatives in the legislature would then not be very supportive of the program. But if the program were to select the poorest 20 percent of districts within each province, the legislative support base would be stronger.

4. ***Proxy means tests*** are an increasingly popular approach, based on the collection of multiple indicators at the household level, which are more easily observed than income, but correlated with it. These are used to construct a score that determines whether the family should receive support. The following points have emerged from recent experience:

- Detailed analysis of data from household surveys on poverty and its correlates is needed to underpin the indicators used and their weights in proxy means tests. The formula usually includes characteristics such as the size and composition of the household, the quality of its housing, ownership of consumer durable goods, and education and perhaps occupation of household members.

- How many indicators to use in the formula is related to the institutional capacity of the relevant government agencies. In general, using more indicators gives better predictions and targeting, but raises administrative costs.

- Proxy scoring systems help to identify the non-poor and avoid errors of inclusion. To ensure that the poor are included requires that programs have extensive outreach in areas where the poor are likely to live, to ensure that they get registered.

5. ***Community-based targeting*** means that some local authority or committee is empowered to make decisions about who should receive program benefits. Sometimes an existing structure is used (for example, the justice of the peace or a minister may nominate candidates for food stamps in Jamaica); in other cases new structures are formed (in Indonesia, new committees of officials and parents were formed to decide which children should get scholarships to help prevent dropout). Sometimes these structures use central guidelines; in other cases, the criteria are developed locally.

- There is little evidence on how well such programs work.

- There are hypotheses that local information is likely to much more accurate and complete than information reported in a ministry office or to a social worker who only rarely visits the village or neighborhood.

- Similarly, there are hypotheses about drawbacks that may affect community-based targeting systems: they may overburden the capacity of those charged with the new task; they may generate conflict over control of the resources; or they may be captured by local elites.

6. ***Self-targeting*** means that a subsidized good or service is available to all, but designed in such a way that only the poor will chose to use it. Hard physical labor paying low wages does not interest the non-poor, and they self-select out of the program. Similarly, broken rice is usually bought by the poor but not the non-poor.

- The accuracy of self-targeting depends a great deal on the details of the scheme. In general, the larger the benefit, the less accurate self targeting is.

- Self-targeting is often achieved by imposing a cost to participation—formally through work requirement, informally by having long queues for service, or through stigma. These costs lower the participants' net benefit from the program and must be considered in understanding how cost-effective the program is.

- Self-targeting is appealing in that it provides a gradual exit criterion—once individuals or families are back on their feet after a crisis, they opt out of self-targeted programs.